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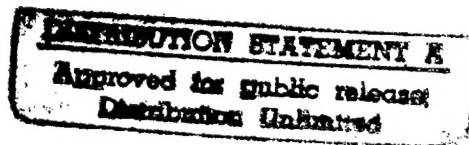
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Political and Economic Implications of Global Naval Presence

Executive Summary

September 30, 1996



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Dov S. Zakheim
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Prepared for:
Office of the Deputy Chief of Naval Operations,
Resources, Warfare Requirements, and Assessments
Assessment Division (N81)
The Pentagon
Washington, DC, 20350-2000

ENCLOSURE (7)

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"POLITICAL AND ECONOMIC IMPLICATIONS OF GLOBAL NAVAL PRESENCE"
Dr. Dov S. Zakheim

Biography:

Dr. Dov S. Zakheim is Corporate Vice President of System Planning Corporation (SPC), a high technology, research, analysis, and manufacturing firm based in Arlington, Virginia. He is also Chief Executive Officer of SPC International Corporation, the consulting, international sales and analysis subsidiary of SPC. In addition, Dr. Zakheim serves as Consultant to the Secretary of Defense and the Under Secretary of Defense for Policy. He is an Adjunct Professor of Public and International Affairs, Columbia University, and Adjunct Scholar of the Heritage Foundation, and a Senior Associate of the Center for International and Strategic Studies.

Until March 1987, Dr. Zakheim was Deputy Under Secretary of Defense for Planning and Resources. In that capacity, he played an active role in the Department's system acquisition and strategic planning processes. Dr. Zakheim also guided Department of Defense policy in a number of international economic fora including the US-USSR Commercial Commission; the Caribbean Basin Initiative; and the Canadian-US Free Trade Agreement. He successfully negotiated numerous agreements with various U.S. allies and led the United States Government's reevaluation of the Israeli LAVI aircraft.

Dr. Zakheim previously served the Reagan Administration as Special Assistant to the Assistant Secretary of Defense (International Security Policy), Advisor to the Under Secretary of Defense (Policy) and Assistant Under Secretary of Defense (Policy/Resources).

Prior to entering service with the Department of Defense, Dr. Zakheim was a Principal Analyst with the National Security and International Affairs Division of the Congressional Budget Office.

Dr. Zakheim is a graduate of Columbia University, New York, where he earned his B.A., Summa Cum Laude, and was elected to Phi Beta Kappa; he also studied at the London School of Economics. Dr. Zakheim earned his doctorate in economics and politics at St. Antony's College, Oxford University, where he was a National Science Foundation Graduate Fellow, a Columbia College Kellett Fellow, and a post-doctoral Research Fellow. He served as Adjunct Professor at the National War College and at Yeshiva University, and served two terms as President Bush's appointee at the United States Commission for the Preservation of America's Heritage Abroad.

Encl (4)

Dr. Zakheim writes, lectures, and provides radio and television commentary domestically and internationally on national defense issues. He is an editorial board member of *Israel Affairs* and of *The Round Table*, the Commonwealth Journal of International Affairs; and he is a fellowships reviewer for the Wilson Center for International Scholars, Smithsonian Institution. He is also a trustee of the Foreign Policy Research Institute, a member of the Board of Search for Common Ground, a member of the Council on Foreign Relations, and other professional organizations. Dr. Zakheim serves on the advisory boards of the Center for Security Policy, the Initiative for Peace and Cooperation in the Middle East, the Nixon Center for Peace and Freedom, and the American Jewish Committee.

Dr. Zakheim is the recipient of the Department of Defense Distinguished Public Service Medal (1986), the Bronze Palm to the DoD Distinguished Public Service Medal (1987) and of the Congressional Budget Office Director's Award for Outstanding Service (1979).

EXECUTIVE SUMMARY

Despite the passing of the Cold War, the United States has determined that overseas military presence during peacetime, often termed "forward presence" or "peacetime presence" should remain an integral part of its force posture. In that vein, the Navy currently is reviewing its long term requirements in order to carry out its presence mission as part of the National Military Strategy. The Navy's effort is being incorporated into the Forward Engagement/Conventional Deterrence Joint Military Assessment.

Current State of Analysis of Peacetime Presence

Navy documents such as ...From the Sea, as well as the National Military Strategy, postulate that overseas economic and political stability is in America's national interest and presuppose a linkage between forward presence and both forms of stability. In fact there has been no structured approach to establish whether regional opinion leaders share that perception of a linkage, and, more specifically, whether they attribute particular importance to the maritime component of forward presence. Nor has an attempt been made to demonstrate the importance of overseas military presence to regional growth and development as it might affect the interests of the average American.

Study Objectives and Outline

This study represents a modest first step toward quantifying the U.S. Navy's value in maintaining economic and political stability in the Mediterranean littoral, the Middle East and East Asia. Chapter I provides an overview of first hand observations by senior opinion leaders and decision makers in the three regions regarding the importance of American military presence, notably maritime presence, to political and economic stability. Respondents were interviewed in Greece, Turkey, Israel, Bahrain, Qatar, the United Arab Emirates, Singapore, Taiwan, the Republic of Korea and the People's Republic of China. Chapter II addresses the

linkage between overseas military presence and American economic interests abroad by focusing on American trade with, and investment in, each of the three regions. In addition, Chapter II examines, as a case study, the implications of the 1995-1996 Taiwan election crisis for regional stock market activity, and the impact of the American naval intervention on market behavior.

Peacetime presence is, in effect, an insurance policy against the outbreak of war. Chapter III provides a first order estimate of the "premium" for that policy by comparing the annual costs of maintaining a forward military presence with estimates of the most recent "cost of war", that of, Operation Desert Storm. Finally, Chapter IV concludes with lessons learned and implications for the regional CINCs responsible for operations in the regions under review.

FOREIGN PERCEPTIONS OF THE UTILITY OF AMERICAN OVERSEAS PEACETIME PRESENCE

Perceptions of Overseas Presence

General Observations. Although the individuals interviewed for the study reflect a wide variety of security concerns, opinion generally converged on the central thesis that the presence of United States military forces plays an extremely useful and important role in preserving stability and security in each of the regions under review. There is also a widespread sense that presence should be "transparent"; should support the policies of like-minded authorities; should complement the military operations of friendly states; and should have a clear objective.

Attitudes in the Eastern Mediterranean. Both Greek and Turkish opinion leaders agree that American military presence stabilizes and constrains their historic rivalry. The Greek public accepts that presence; the Turkish public is more ambivalent as a result of activity generated by Operation Provide Comfort. Nevertheless, Turkey also sees American presence as a deterrent against Iraq and Iran. Israelis, for their part, are unanimous in welcoming American presence as a deterrent against aggression by hostile Arab states. They view military presence as the most

credible indicator of ongoing American interests in the region, and see no other state replacing or duplicating the role of American forward deployed forces.

Attitudes on the Arabian Peninsula. American presence is generally seen as a stabilizing factor, even among such rivals in territorial disputes as Bahrain and Qatar. There are mixed feelings in the UAE about that presence, however. While the United States is seen as a key deterrent to Iraq and Iran, there is a concern in the Emirates that the United States will overstay its welcome.

Attitudes in East Asia. There is widespread agreement on the importance of U.S. military presence as a stabilizing factor in the region. Even the PRC does not oppose that presence *per se*, despite its bitterness over the Navy's intervention in the 1996 Taiwan crisis. In contrast, Taiwanese respondents noted, with concern, the PRC's increasing southward maritime focus. On the other hand, it is Japan's role that evokes concern in South Korea, the PRC and ASEAN. Respondents view U.S. military presence as a restraint upon Japan's expanding its military role in the region. Finally, Koreans see the American presence as remaining important after unification, though its nature will change from one primarily land-based to one that is more mobile and primarily maritime.

The Special Role of Maritime Presence

Interviews in all three regions indicate that flexible American presence, of which maritime presence is a prime component, appears to be most favored by local officials, business and opinion leaders. Although respondents rejected no form of presence, including "virtual presence" associated with the U.S. Air Force, there was absolutely no enthusiasm whatsoever for increasing land-based forces in any of the three regions. Indeed, much concern was expressed about the viability of American long-term land force, or even, in some instances, land-based (i.e. air as well as ground) forces overseas.

The historic preference for an American "over the horizon" presence not only continues to predominate in the Gulf region, but also is echoed in more muted terms in the other regions as well. Respondents in the Eastern Mediterranean supported the continuation of American maritime presence in general, and naval presence in particular. East Asian respondents likewise compared maritime presence favorably with land-based presence. Significantly, in marked contrast to references about the difficulties affecting American presence on Okinawa and in South Korea, no Asian interviewee mentioned, much less questioned, continuing American operations from the Yokosuka naval base.

Distinctions Between Carriers and Other Forms of Naval Presence. There appear to be a variety of views, at times even within the same defense ministry, regarding the relative importance of aircraft carriers as a form of naval or maritime presence. Some respondents felt that carriers should be used sparingly as signals of American intent. Others argued that presence is "derived from the carrier battle group." There was a widespread consensus, however, that, as one respondent put it, in major crises "only a carrier will do."

Overseas Presence and Perceptions of American Reliability

There is a consensus that cuts through all regions that overseas American military presence is the best indicator of the United States as a "friend in need." Presence demonstrates the American willingness to implement its commitments, and underscores the U.S. role as an "honest" broker among potential--or actual--adversaries. The major concern for many respondents was about America's financial and budgetary will to continue to support its overseas posture.

Maritime Presence, Stability and Economic Interests

Respondents interviewed for this study share the stated American view that overseas military presence is crucial to the preservation of stability, which in turn is crucial to regional economic growth, itself an American economic and national security interest. Many respondents were even

more explicit about the linkage between military presence and the preservation, indeed enhancement, of their own and America's economic interests. This feeling was widespread throughout each of the three regions under review.

ECONOMIC INDICATORS OF AMERICAN INTERESTS OVERSEAS

The Eastern Mediterranean. American trade with Greece, Turkey, and Israel has shown marked growth through the 1990s. Trade with Greece and Turkey has shown a 9 per cent increase since 1990; with Israel trade has grown at an annual rate of 12 per cent over the same period. Investment has increased sharply since 1988; in Israel's case reflecting investor confidence in the peace process.

The Arabian Peninsula. Preserving access to Gulf petroleum products has long been identified as a primary American security interest. Though American dependence on Gulf petroleum has declined somewhat, and is less than that of many of its OECD partners, notably Japan, it still accounts for about 20 per cent of American oil imports. In addition American investment in the Gulf Coordination Council states of the Arabian Peninsula has grown by an annual rate of over 16 per cent since the end of the Iran-Iraq War.

East Asia. The linkage between military presence and economic stability is stressed most often by East Asians and American observers of East Asian affairs. Not surprisingly, American trade with the region's Newly Industrialized Countries and the People's Republic of China continues to rise, by over 45 per cent annually in the case of the PRC, and by approximately 20 per cent annually with respect to Singapore and Indonesia. Trade also continues to expand with America's larger regional trading partners, Japan, Taiwan and South Korea.

American investment in East Asia has risen sevenfold since 1990, and by over fifty per cent since 1992. Of particular note has been the growth in Pacific mutual equity funds, which represent investments by millions of ordinary Americans. Market capitalization of major Pacific

equity funds (excluding Japan funds) has grown over tenfold since 1990, that is, at an average annual rate of 177 per cent.

The case of the 1995-1996 Taiwan election crisis indicates the interrelationship between maritime presence and economic stability. As tensions between Taiwan and China escalated in the run-up to the March 1996 election, the Hong Kong Hang Seng Index and the Taiwan Stock Exchange Index plunged well below the levels that would have resulted from the decline in U.S. stock and bond prices in early March. The markets recovered sharply after the U.S. announcement that it was deploying its carriers toward the Taiwan Strait. Asians credited the American response for the markets' recovery.

ESTIMATING THE COST OF PRESENCE AS A PEACETIME "INSURANCE PREMIUM"

A first approximation of the annual cost of peacetime presence, based on System Planning Corporation's Constant Force Modernization Model (CFM), yields a figure of \$12 billion (in constant fiscal year 1997 dollars). This represents approximately one-eighth the cost of two Major Regional Contingencies, itself a figure derived from the cost of Operations Desert Shield and Desert Storm (see Table 1).

Table 1**Cost of Two MRCs vs Cost of Annual Peacetime Presence**

	DESERT SHIELD/ DESERT STORM	Global Presence
End Strength (K)	158	238
Costs (FY97\$)		
Operations and Support (O&S)	\$39B	\$11B
Acquisition		
Replacement	9	1
Wear and Tear	1	—
Subtotal	49B	12B
Two MRC Requirement	x2	—
TOTAL	\$98B	\$12B

Note:

1. DS/DS END-Strength was 158K; March 1996 overseas presence end-strength was 238K.
 2. Military pay cost equals 10B in both cases.
 3. O & M estimate for Global Presence based on historical per capita cost.
 4. Acquisition Replacement estimate for Global Presence equals depreciation value of PREPO ships and War Reserve Stocks.
 5. DS/DS wear and tear cost reflects additional costs related to the acceleration of retirement given the OPTEMPO rate.
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The one-eighth estimate is quite conservative, since the SPC model may somewhat overstate future year operations and maintenance costs, while the cost of the Gulf War was likely to have been very low, given the unusual brevity and the overwhelming power of U.S. forces against what proved to be a surprisingly weak opponent.

FINDINGS AND LESSONS LEARNED

Leading regional figures are as likely to ascribe as much importance to American military presence as does the U.S. government and American business leaders. They perceive presence as

a stabilizing factor in both political and economic terms. They view maritime presence as the preferred form of American presence and some focus especially on carrier presence.

America maintains a major economic stake in all three of the regions reviewed in this study. Although the evidence is limited, there appears to be some empirical basis in support of the widely held assumption that there is a positive correlation between the stability of regional markets and the ability of American forces to defuse crises quickly. This hypothesis requires considerably more detailed study, as do many of the other observations about the relationship between presence and overseas economic prosperity.

Finally, a first-order estimate would put the annual cost of the "overseas [presence] insurance premium" at no more than one-eighth the likely cost of two Major Regional Conflicts. This cost relationship is certainly conservative. More study is needed, and will likely demonstrate that the cost of the "premium" is considerably lower than this study projects.